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SUBJECT: MORE HAWALA CLOSINGS; LICENSE APPLICATIONS UP

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1.(SBU) SUMMARY: The newly formed Central Bank enforcement team recently closed five money service provider (MSP) shops in Kabul's main hawaladar market. Pressure from the Hawala Association caused two of the five to be released immediately. The enforcement team seized the books of the three that were not released, but the books were not held long enough for detailed investigations. However, the Central Bank received 70 applications for MSP licenses after the enforcement actions. If approved, the number of licensed MSP operations in Kabul's main hawaladar market will approach 100 out of an estimated 305. This is a strong and positive signal that the Central Bank is taking seriously its obligations to license and monitor hawaladar activity.
END SUMMARY.

12. (SBU) During the week of May 21, the Central Bank enforcement team initiated its first campaign against unlicensed hawaladars. The team consists of one representative from the Attorney General's Office, two from the Ministry of Interior (MOI), one from the Central Bank's Supervision Department, and an intermittent observer from the Financial Intelligence Unit (FIU). (NOTE: The Central Bank Governor has authorized the FIU to hire a law enforcement liaison, perhaps on detail from the MOI, who would provide more support in this area. END NOTE.) Inspections in the hawaladar market revealed two currency exchangers who were also providing MSP/hawaladar services. Both were closed. However, a delegation led by the Hawala Association President successfully pressured the Central Bank First Deputy Governor Ibrahimi to re-open the shops that same day.

13. (SBU) Angry over the quick re-openings, representatives of the FIU, the Supervision Department and the enforcement team met with Ibrahimi to discuss a tougher strategy. In the meeting, the enforcement team complained that because they had "lost face" in the market they could not go back to the market. A chastened Ibrahimi promised to be tougher, and in the following round of inspections

during the week of May 28, three shops were closed by the inspection team, again for not reporting MSP activities. In addition, their books were seized on the recommendation of the FIU. So far, they have remained closed, despite a repeat visit by the hawala delegation.

14. (SBU) In addition to closing three shops, the FIU attempted to fine them, an action that the First Deputy supported. Unfortunately, the Central Bank General Counsel advised that the Central Bank did not have the authority to levy a fine in this case. The best that could be done, he stated, was to send a strongly worded letter of reprimand, which all agreed was insufficient. Ibrahimi and the General Counsel agreed to draft a regulation that would authorize the Central Bank to levy fines against hawaladars that violate the licensing regulations. The draft would be submitted to the Central Bank's Supreme Council, but it should not be expected to be implemented until the end of the summer.

15. (SBU) During the inspections, the enforcement team counted 305 "storefronts" in the main hawala market. The team suspects that almost all are providing MSP/hawaladar services, so the inspection and licensing process will need to continue. The FIU has also issued an internal opinion that a "storefront" (service provider) that does not initiate transactions, but only receives them, must still be considered to be an MSP/hawaladar. The Director General of the FIU and the Head of the Licensing Department are working on a strategy to extend the inspections to MSP/hawalas in other sections of Kabul and eventually to other cities such as Mazar-e-Sharif, Kunduz and Herat.

16. (SBU) Immediately after the closings, the Central Bank received a total of 70 new MSP/hawala license applications. An application is only counted if the paperwork is completed and the 15,000 Afghani

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(approximately USD 300) fee has been paid. Prior to the enforcement actions, the Central Bank had issued a total of 28 MSP/hawala licenses to service providers in the main Kabul market.

17. (SBU) COMMENT: In the past six months, the Central Bank has made substantial progress in registering hawaladars. Assuming all 70 pending applications are approved, approximately one-third of the hawaladars in Kabul's main market will be registered, no mean achievement given the hawaladars' predilection to avoid government at all costs. The Bank's initial enforcement efforts must be applauded for stimulating the appropriate response in the market. However, the enforcement process does appear to have a "catch and release" problem. Seized books have been returned to hawaladars after being held for only two days, an insufficient amount of time for the FIU to analyze them for possible additional law enforcement actions. Nonetheless, the Central Bank has demonstrated that it can and will confiscate hawala records, an important signal to the hawaladar community that the government is more serious.

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